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SUBJECT: FRENCH DEFENSE BUDGET STABLE AMID WIDESPREAD CUTBACKS

Classified By: Political Minister-Counselor Josiah Rosenblatt, reasons 1.4 (b) and (d).

**¶11. (C)** Summary: The Ministry of Defense's 2007 budget would increase defense spending a modest 2.2 percent to 47.7 billion euros, according to the draft budget presented by Finance Minister Thierry Breton on September 27. The draft budget dispels earlier rumors that defense spending could diminish as the Chirac government attempts to reduce the overall budget deficit in line with EU-mandated limits and impress upon the public his government's fiscal prudence in advance of next April's presidential elections. Most additional funds would be earmarked for large equipment purchases--including the Rafale multi-role plane and a second aircraft carrier--and for international operations, such as those in Afghanistan and Lebanon. The defense budget contained few surprises, and proposed increases corresponded with previous commitments established in 2002 for the second phase (2003-2008) of a multi-year military modernization plan, which established defense priorities through 2015. The MoD pointed to the budget as proof that France remains committed to its status as a global military power, even at a time when other ministries suffered significant cuts and other EU member states are scaling back on defense spending. It remains to be seen what effect the 2007 Presidential elections will have on the defense budget. End Summary.

Defense Gains Small Victory in Belt-Tightening Environment(-----)

**¶12. (C)** The Ministry of Defense budget should enjoy a 2.2 percent increase from 2006 for a total of 47.7 billion euros, in contrast with a Central Government (GC) budget widely hailed as "virtuous" for strict cost-cutting measures that will trim 15,000 jobs from the public rolls and limit public spending to a pre-inflation increase of .8 percent. Finance Minister Thierry Breton presented the draft budget on September 27 at a time when the GoF is under great pressure to demonstrate fiscal prudence: the European Union's Stability and Growth pact requires all member states to reduce debt as a percentage of GDP to 60 percent by 2010, but France's overall budget deficit still stands at 65.5 percent for the second quarter of 2006, one of the highest levels in Europe.

**¶13. (C)** In this fiscally austere environment, many expected the defense budget to suffer. However, as she did in previous years, Defense Minister Michele Alliot-Marie waged an aggressive and successful public campaign to preserve her funding, claiming it would be "irresponsible" to cut defense spending at a time when 14,500 French troops are deployed in

theaters such as Lebanon, Afghanistan, Kosovo and the Ivory Coast. She further called for economic patriotism in defense-related industries, urging large increases in research and technology spending to protect French industry against "the power of American industry." Finally, in the lead-up to the spring 2007 presidential elections, she repeatedly invoked the position of Socialist Party (PS) First Secretary Francois Hollande, that defense spending might be

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better directed toward social projects, to imply that a Socialist presidency would lead to a weakened military.

**¶4. (U)** According to the plan presented to the Council of Ministers, defense spending would total 36.3 billion euros (47.7 billion euros including pensions). Defense funds would account for 2.6 percent of the French GDP for the second year in a row (as compared to 4.1 percent in the U.S. and 1.5 percent in Germany). Second only to the budget of the Ministry of Education, this figure represents 599 euros per French resident per year. The budget closely follows the five-year plan for 2003-2008 outlined in the Law of Military Programming (LPM), which aims to achieve specified targets of military modernization by 2015. Alliot-Marie announced in her presentation of the budget that 2007 marks the first time in 25 years that an LPM plan has been followed for all five consecutive years.

**¶5. (U)** The additional funds primarily would provide for the procurement of new equipment and deployment of forces overseas. The MoF allocated a second tranche of 700 million euros to begin construction of a second aircraft carrier, 475 million euros to purchase 12 NH 90 helicopters that would replace the aging Super Frelons, 250 million euros for the purchase of more Rafale multi-role planes, and 220 million euros for further development of the Barracuda nuclear attack submarine. The MoD would also purchase 117 armed combat

vehicles for the infantry (VBCI), 50 naval cruise missiles and 5,000 "integrated infantry systems" (FELIN) that consist of a uniform, arms and communications equipment that enable an infantryman to operate efficiently in a wide range of circumstances. Further, the MoD would increase spending on "external operations" (OpEx) to 360 million euros from 175 million euros.

(But The MoD Downplays Subtle But Important Shortfalls

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**¶6. (C)** Despite Alliot-Marie's claim that the budget constitutes "dazzling proof of five year's worth of ceaseless political determination to modernize our defense," the modest increase in the defense budget conceals notable cutbacks and unfulfilled promises. The Army would purchase only 12 NH90 helicopters, instead of the 30 helicopters it intended to acquire as recently as September. While Alliot-Marie boasted that the gendarmerie will create 1,410 new jobs, she failed to mention that the MoD would cut 4,410 positions, for a net loss of 3,000 jobs. (NOTE: the MOD and the Interior Ministry share responsibility for the gendarmerie, but it relies on the MOD for its budget.)

**¶7. (C)** Alliot-Marie particularly highlighted the doubling of earmarks for external operations, saying that the additional funds demonstrated France's ongoing commitment to preserving peace and fighting terrorism around the world. However, according to Captain Eric Chaplet, head of the MoD's office that handles budget matters for NATO and the EU, the increase marks a newfound fiscal prudence rather than an intention to increase France's international military engagement. Until 2005, OpEx did not constitute a line-item in the defense budget, so when crises arose, the MoD was forced to delay or cancel other existing programs or equipment purchases, thus weakening the French military in the long-term, Chaplet explained. Even now, the 360 million euro allocation for OpEx is far from enough: the MoD went 600 million euros over budget in 2005 on OpEx, and may do so again in 2006. For instance, Chaplet expects that France's UNIFIL contribution

alone will cost 100 million euros.

Will Presidential elections affect the Defense Budget?

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¶8. (C) In the lead-up to the September 27 presentation of the draft budget, the press and many MoD officials speculated that the defense budget could be artificially high for reasons of presidential politics. The prevailing argument suggested that the GoF would present an optimistic defense budget in order to project an image of strength, leaving it to the next government to make "rational" decisions and reduce funding, as necessary. Separately, some political observers noted that a positive defense budget could benefit the center-right Union for the Popular Movement (UMP) presidential nominee, Minister of the Interior Nicholas Sarkozy, or (much less likely) Alliot-Marie herself. Alliot-Marie has implied that a Socialist Party presidency would lead to budget cuts that would preclude France from completing essential military modernization.

¶9. (C) But MoD budget officials remain unconcerned about the fate of long-term programs following the presidential elections, according to Chaplet. In his view, both the center-left and center-right agree on the importance of maintaining a strong defense and will likely share many of the same basic priorities. "France wants to play a significant role in the world and ever since Charles de Gaulle our defense budget has been a barometer of that role. Therefore, I am confident the budget will not be cut," he concluded. Elysee advisors and MOD Cabinet officials have made the same argument.

¶10. (C) Comment: While we can expect Defense Minister Alliot-Marie to fight major cuts in the 2006-2007 defense budget, the reality is that to meet current expenditures, she will likely have to make some cuts in programs in 2007. In 2005, these program cuts were in the range of 600 million euros. Unsurprisingly, DATT and Office of Defense (ODC) contacts have noted that MOD staffs are studying budget cut options, although perhaps only as a contingency measure. Alliot-Marie will seek to ensure, however, that any potential program cuts are minimized, as long as she retains the defense portfolio. End Comment.

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